

MUHLENBERG COUNTY SCHOOL DISTRICT

**REPORT ON AUDIT OF BASIC
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2009

MUHLENBERG COUNTY SCHOOL DISTRICT
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**MUHLENBERG COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2009**

As management of the Muhlenberg County Board of Education (MCBE) School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$11,466,924 as compared to \$12,313,075 for fiscal 2008. This was a relatively stable fiscal time period with no large state SEEK increases and no major construction expenses.
- A continued effort was focused on purchasing in the areas of supplies, food, and travel resulting in economies due to changed management strategies.
- Following the completion of the district long-range plan for facilities, there has been a continued focus on investing in plant management with the age and size of our facilities reflective of this need. There was a new district facility plan completed by the local planning committee during fiscal 2009. This facility plan included the merging of our two high schools into one high school. The high school merger became effective on July 1, 2009. Past facility improvements (new Greenville and South Elementary schools along with the new gym at Longest) reflect the Board's commitment to our student needs. Work began in the spring of 2007 and was completed and in full use during fiscal 2009 on the new gym/renovation project for Central City Elementary. Estimated total cost on this project was \$4.3 million with \$1.7 million of that coming from the general fund.
- Interest income (all funds) had a decrease for the year generating \$326,059 compared to the fiscal 2008 amount of \$771,888. This decrease is attributable to less construction funds available for investment and the drop in interest rates during fiscal 2009.
- During fiscal 2009, the district felt little impact of the negative economy other than the decrease in interest income. We anticipate flat to slight revenue decrease in fiscal 2010. State budget shortfalls could have a direct negative impact on state funding to our school district. The district does have a 3.7% contingency (~\$2 million) for the 2009-10 budget, if needed.
- The district remains committed to increasing starting teacher salaries. The Board approved a 1.0% salary increase in June of 2008 for fiscal year 2009. This increase was for all certified and classified staff. The budget impact of this increase along with steps and rank changes will be approximately a \$500,000 increase in payroll. The majority of this was paid from the general fund.
- The General Fund had \$ 44,796,645 in revenue, which primarily consisted of the state program (SEEK), property and motor vehicle taxes. There was \$40,927,227 in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. There were no new bond issues in fiscal 2009.

CAPITAL CONSTRUCTION

The following projects represent capital construction items that were started during fiscal 2009:

	<u>Estimated Cost</u>
• West campus gym HVAC	\$ 824,600
• East campus gym HVAC	\$ 824,600
• West campus auditorium	\$ 4,458,958

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

Notes to the financial statements. The accompanying notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$49,843,862 as of June 30, 2009, an increase of \$4,365,081 from June 30, 2008.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2009 and 2008

The following is a summary of the District's net assets as compared to the prior year:

	2009	2008
Current Assets	\$ 20,914,922	\$ 17,884,728
Noncurrent Assets	58,849,078	60,168,995
Total Assets	\$ 80,355,456	\$ 77,953,723
Current Liabilities	\$ 3,354,719	\$ 3,871,121
Noncurrent Liabilities	27,156,875	28,603,821
Total Liabilities	\$ 30,511,594	\$ 32,474,942
Net Assets		
Investment in capital assets (net of debt)	\$ 31,224,207	\$ 29,559,123
Restricted	1,664,715	825,173
Unrestricted	16,954,940	13,959,613
Total Net Assets	\$ 49,843,862	\$ 45,478,781

Comments on Budget Comparisons

- The District's total revenues for governmental funds for the fiscal year ended June 30, 2009, were \$52,616,888 as compared to \$51,000,363 for fiscal 2008 representing an increase of 1.61 million from the prior year. This is primarily due to increases in state SEEK funding and local revenue increases.
- General fund budget revenues, net of on-behalf payments, compared to actual revenue varied from line item to line item with the ending actual balance being \$44,796,645 or approximately 100.1% of budget.
- The total cost of all programs and services was \$52,958,389 compared to \$52,166,630 for fiscal 2008, an increase of \$791,759.
- General fund budget expenditures, net of on-behalf payments, compared to actual varied among line items as well. Expenditures came in at \$40,927,227 or under budget by \$12.3 million, or approximately 77% of budgeted expenditures. This difference is primarily due to carryforward balances incorporated in the budget. A portion of the carry forward balance has been designated by the Board as a reserve set up for future capital construction needs. The construction items noted in the MD&A as items started in FY 2009 are all general fund projects coming out of the carry forward balance.

The following table presents a summary of government-wide revenues and expenses for governmental activities for the fiscal years ended June 30, 2009 and 2008.

	2009	2008
Revenues:		
Local revenue sources	\$ 15,349,264	\$ 14,048,045
State revenue sources	30,575,958	30,184,314
Operating grants and contributions	7,202,245	6,492,778
Charges for services	192,348	127,214
Investment earnings	321,838	738,093
Other Sources	603,951	544,890
Total revenues	<u>54,245,604</u>	<u>52,135,334</u>
Expenses:		
Instruction	31,009,153	29,901,689
Student Support Services	1,472,050	1,054,347
Instructional Support	1,243,276	1,258,520
District Administration	1,134,443	1,138,983
School Administration	1,764,641	1,701,592
Business Support	1,326,680	1,038,142
Plant Operations	4,922,848	4,575,495
Student Transportation	2,582,711	3,069,859
Food Service Operation	60,063	61,441
Community Support	589,275	672,434
Facilities Acquisition	33,374	-
Other	1,098,137	1,868,068
Depreciation	2,588,303	2,314,733
Total expenses	<u>49,824,954</u>	<u>48,839,303</u>
Change in net assets	4,420,650	3,296,031
Net assets - beginning	<u>44,455,825</u>	<u>41,159,794</u>
Net assets – ending	<u>\$48,876,475</u>	<u>\$ 44,455,825</u>

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district's overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$3,349,102 (general fund) in contingency (4.6%). The beginning cash balance for the beginning of the fiscal year was \$14.6 million. The Board is in sound financial condition but the current negative economy is expected to reduce our carry forward balance. Significant Board action that impacted the finances included a 1.5% pay raise for all certified and classified employees effective July 1, 2009. The merger of the North and South High schools created some one-time expenses for fiscal 2009. Additionally, there was spending for extra instructional staff and allotment and there is typically expenses for facility repairs outside of bonded building and renovation projects. We do anticipate an approximate \$12,000,000 bond issue in fiscal 2010-11 for a new Bremen Elementary School.

Questions regarding this report should be directed to the Financial Officer, Jeff Travis at (270) 338-2871 or by mail to 510 West Main Street, Powderly, KY 42367, or email at jeff.travis@muhlenberg.kyschools.us.

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muhlenberg County School District (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements* and *Appendix III of the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 4 and, 37 through 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor and agency fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic purpose financial statements of the District. The combining nonmajor and agency fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying supplemental information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alexander & Company, PSC

Owensboro, Kentucky
November 12, 2009

MUHLENBURG COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 11,125,920	\$ 341,004	\$ 11,466,924
Investments	7,030,952	-	7,030,952
Accounts receivable			
Taxes - current	117,852	-	117,852
Taxes - delinquent	16,831	-	16,831
Other	198,640	-	198,640
Intergovernmental - State	188,670	-	188,670
Intergovernmental - Federal	1,117,419	167,315	1,284,734
Promise to give	500,000	-	500,000
Inventory	160,854	83,138	243,992
Prepaid expenses	457,784	-	457,784
Prepaid interest	-	-	-
Interest receivable	-	-	-
Total current assets	<u>20,914,922</u>	<u>591,457</u>	<u>21,506,379</u>
Noncurrent Assets			
Bond issuance costs	476,900	-	476,900
Capital assets	84,348,382	1,333,647	85,682,029
Less: Accumulated depreciation	(26,363,910)	(945,941)	(27,309,851)
Total noncurrent assets	<u>58,461,372</u>	<u>387,706</u>	<u>58,849,078</u>
Total assets	<u><u>\$ 79,376,294</u></u>	<u><u>\$ 979,163</u></u>	<u><u>\$ 80,355,456</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 332,982	\$ 2,576	\$ 335,558
Retained percentage contracts	206,672	-	206,672
Accrued payroll and withholding obligations	-	9,200	9,200
Due to other funds	-	-	-
Deferred revenues	568,096	-	568,096
Current portion of bond obligations	1,642,000	-	1,642,000
Current portion of capital lease obligations	-	-	-
Current portion of accrued sick leave	250,000	-	250,000
Interest payable	343,193	-	343,193
Total current liabilities	<u>3,342,943</u>	<u>11,776</u>	<u>3,354,719</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	26,058,000	-	26,058,000
Noncurrent portion of capital lease obligations	-	-	-
Noncurrent portion of accrued sick leave	1,098,875	-	1,098,875
Total noncurrent liabilities	<u>27,156,875</u>	<u>-</u>	<u>27,156,875</u>
Total liabilities	<u><u>\$ 30,499,818</u></u>	<u><u>\$ 11,776</u></u>	<u><u>\$ 30,511,594</u></u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 30,761,372	\$ 462,835	\$ 31,224,207
Restricted for:			
Libraries	442,459	-	442,459
Capital projects	1,222,256	-	1,222,256
Unrestricted	16,450,389	504,552	16,954,940
Total net assets	<u><u>\$ 48,876,475</u></u>	<u><u>\$ 967,387</u></u>	<u><u>\$ 49,843,862</u></u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2009

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities						
Instruction	\$ 31,009,153	\$ -	\$ -	\$ (23,810,768)	\$ -	\$ (23,810,768)
Support services:						
Student	1,472,050	9,173	3,860	(1,459,017)	-	(1,459,017)
Instruction staff	1,243,276	-	-	(1,243,276)	-	(1,243,276)
District administrative	1,134,443	-	-	(1,134,443)	-	(1,134,443)
School administrative	1,764,641	-	-	(1,764,641)	-	(1,764,641)
Business	1,326,680	-	-	(1,326,680)	-	(1,326,680)
Plant operation and maintenance	4,922,848	2,911	-	(4,919,937)	-	(4,919,937)
Student transportation	2,582,711	171,929	-	(2,410,782)	-	(2,410,782)
Central office	-	-	-	-	-	-
Food service operation	60,063	-	-	(60,063)	-	(60,063)
Community service activities	589,275	-	-	(589,275)	-	(589,275)
Facilities acquisition and construction	33,374	-	-	(33,374)	-	(33,374)
Other	1,098,137	8,335	-	(1,089,802)	-	(1,089,802)
Depreciation	2,588,303	-	-	(2,588,303)	-	(2,588,303)
Total governmental activities	49,824,954	7,202,245	-	(42,430,361)	-	(42,430,361)
Business-type Activities						
Food service	2,788,557	898,504	215,278	-	(59,001)	(59,001)
Day care	338,044	295,831	-	-	-	-
Adult education	6,834	5,845	-	-	(789)	(789)
Total business-type activities	3,133,435	1,658,187	215,278	-	(59,790)	(59,790)
Total school district	\$ 52,958,389	\$ 8,860,432	\$ 215,278	\$ (42,430,361)	\$ (59,790)	\$ (42,490,151)
General Revenues						
Property taxes	\$ 5,341,402			\$ -		\$ 5,341,402
Motor vehicle taxes	828,913			-		828,913
Unmined mineral tax	129,341			-		129,341
Other taxes	119,772			-		119,772
Revenue in lieu of taxes	8,929,836			-		8,929,836
Investment earnings and adjustment to market	321,838			-	4,221	326,059
State and formula grants	30,575,958			-	-	30,575,958
Contributions	500,000			-	-	500,000
Miscellaneous	103,951			-	-	103,951
Total general revenues	46,851,011			4,221		46,855,232
Change in net assets	4,420,650				(55,569)	4,365,081
Net assets - beginning	44,455,825				1,022,956	45,478,781
Net assets - ending	\$ 48,876,475				\$ 967,387	\$ 49,843,862

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES:					
Cash and cash equivalents	\$ 6,008,174	\$ (666,301)	\$ 5,309,924	\$ 474,123	\$ 11,125,920
Investments	7,030,952	-	-	-	7,030,952
Accounts receivable					
Taxes - current	117,852	-	-	-	117,852
Taxes - delinquent	16,831	-	-	-	16,831
Other	198,640	-	-	-	198,640
Intergovernmental - State	3,354	185,316	-	-	188,670
Intergovernmental - Federal	33,030	1,084,389	-	-	1,117,419
Prepaid expense	457,784	-	-	-	457,784
Inventories	160,854	-	-	-	160,854
Due from other funds	-	-	-	-	-
Interest receivable	-	-	-	-	-
Total assets	\$ 14,027,471	\$ 603,404	\$ 5,309,924	\$ 474,123	\$ 20,414,922
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 294,088	\$ 35,308	\$ 3,586	\$ -	\$ 332,982
Retained percentage contracts	-	-	206,672	-	206,672
Accrued payroll and related expenses	-	-	-	-	-
Accumulated sick leave - current	250,000	-	-	-	250,000
Due to other funds	-	-	-	-	-
Deferred revenues	-	568,096	-	-	568,096
Obligations under capital lease	-	-	-	-	-
Debt obligations	-	-	-	-	-
Total liabilities	544,088	603,404	210,258	-	1,357,750
Fund Balances					
Restricted for inventory/fixed assets	160,854	-	-	-	160,854
Restricted for libraries	442,459	-	-	-	442,459
Encumbrances - current year	-	-	-	-	-
Restricted for construction	-	-	248,133	10,882	259,015
Unreserved	12,880,070	-	4,851,533	463,241	18,194,844
Total fund balances	13,483,383	-	5,099,666	474,123	19,057,172
Total liabilities and fund balances	\$ 14,027,471	\$ 603,404	\$ 5,309,924	\$ 474,123	\$ 20,414,922

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds	\$ 19,057,172
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported as assets in governmental funds. The cost of the assets is \$ 84,348,382 and the accumulated depreciation is \$ 26,363,910	57,984,472
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	-
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Certain long-term assets are not reported in the governmental funds because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	500,000
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Bond issuance costs reported as an expenditure in the governmental fund financial statement are capitalized in the government-wide financial statements.	476,900
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(27,700,000)
Accrued interest on the bonds	(343,193)
Long-term portion of accrued sick leave	(1,098,875)

Total net assets for governmental activities	\$ 48,876,475
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The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2009

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Property taxes	\$ 4,641,804	\$ -	\$ -	\$ 699,598	\$ 5,341,402
Motor vehicle taxes	828,913	-	-	-	828,913
Unmined minerals	129,341	-	-	-	129,341
Utility taxes	-	-	-	-	-
Other taxes	119,772	-	-	-	119,772
Revenue other local government units	8,929,836	-	-	-	8,929,836
Tuition and fees	-	-	-	-	-
Transportation	171,929	-	-	-	171,929
Earnings on investments	298,203	23,635	-	-	321,838
Student activities	-	-	-	-	-
Community service activities	3,860	-	-	-	3,860
Other local revenues	65,886	-	-	-	65,886
State sources					
SEEK	21,916,748	-	-	-	21,916,748
Other	7,522,107	1,853,235	-	1,416,959	10,792,301
Federal - direct	101,375	202,232	-	-	303,607
Federal - indirect	-	3,508,809	-	-	3,508,809
Intermediate sources	-	115,775	-	-	115,775
Other revenues	66,871	-	-	-	66,871
Total revenues	44,796,645	5,703,686	-	2,116,557	52,616,888
Expenditures					
Instruction	26,593,862	4,440,806	-	-	31,034,668
Support services					
Student	1,351,848	120,202	-	-	1,472,050
Instruction staff	1,114,046	129,230	-	-	1,243,276
District administration	1,140,025	-	-	-	1,140,025
School administration	1,764,641	-	-	-	1,764,641
Business	903,063	423,617	-	-	1,326,680
Plant operation and maintenance	4,979,621	-	-	-	4,979,621
Student transportation	2,921,815	165,109	-	-	3,086,924
Central office	-	-	-	-	-
Food service operation	60,063	-	-	-	60,063
Community service activities	64,868	524,407	-	-	589,275
Facilities acquisition and construction	33,375	-	616,810	-	650,185
Other	-	-	-	1,781,352	1,781,352
Total expenditures	40,927,227	5,803,371	616,810	1,781,352	49,128,760
Excess (deficit) of revenues over expenditures	3,869,418	(99,685)	(616,810)	335,205	3,488,128
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	-	-
Payment to refunding debt escrow agent	-	-	-	-	-
Operating transfers in	-	99,685	5,468,343	1,781,351	7,349,379
Operating transfers out	(5,696,064)	-	-	(1,653,315)	(7,349,379)
Total other financing sources (uses)	(5,696,064)	99,685	5,468,343	128,036	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(1,826,646)	-	4,851,533	463,241	3,488,128
Net change in fund balances	(1,826,646)	-	4,851,533	463,241	3,488,128
Fund balance, July 1, 2008	15,310,029	-	248,133	10,882	15,569,044
Fund balance, June 30, 2009	\$ 13,483,383	\$ -	\$ 5,099,666	\$ 474,123	\$ 19,057,172

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2009

Total net change in fund balances - governmental funds	\$ 3,488,128
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$ 1,437,846) exceeded depreciation (\$ 2,588,303) in the current period.	(1,150,457)
--	-------------

In the statement of activities, only the gain (loss) on the sale or disposal is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of equipment sold.	(8,387)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	500,000
--	---------

The proceeds of debt issuances provide current financial resources to governmental funds. But issuing debt increases long-term liabilities in the statement of net assets.	-
--	---

Repayment of bond principal and capital lease payments are an expenditure in the governmental funds, but the payments reduce long-term liabilities in the statement net assets. This is the amount of the payments.	959,636
---	---------

On-behalf payments of bond principal by the SFCC are revenues in the governmental funds, but the payments reduce long-term liabilities in the statement net assets. This is the amount of the payments.	615,362
---	---------

In the statement of activities, certain operating expenses - compensated absences (sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the amount that used exceeded sick leave earned.	(195,054)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds, leases and contracts payable.	245,320
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Bond issuance costs reported as an expenditure in the governmental fund financial statement are capitalized in the government-wide financial statements.	(33,898)
--	----------

Change in net assets of governmental activities	<u>\$ 4,420,650</u>
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The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

ASSETS	Food Service Fund	Community Education Fund	Other Enterprise Funds	Total
Current Assets				
Cash and cash equivalents	\$ 338,675	\$ 2,329	\$ -	\$ 341,004
Accounts receivable - other	-	-	-	-
Accounts receivable - Federal	167,315	-	-	167,315
Inventories	83,138	-	-	83,138
Total current assets	589,128	2,329	-	591,457
Noncurrent Assets				
Capital assets	1,333,647	-	-	1,333,647
Less: Accumulated depreciation	(945,941)	-	-	(945,941)
Total noncurrent assets	387,706	-	-	387,706
Total assets	\$ 976,834	\$ 2,329	\$ -	\$ 979,163
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 2,576	\$ -	\$ -	\$ 2,576
Accrued payroll and withholding obligations	9,200	-	-	9,200
Total current liabilities	11,776	-	-	11,776
Total liabilities	11,776	-	-	11,776
NET ASSETS				
Invested in capital assets, net of related debt	462,835	-	-	462,835
Unrestricted	502,223	2,329	-	504,552
Total net assets	\$ 965,058	\$ 2,329	\$ -	\$ 967,387

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the year ended June 30, 2009

	Food Service Fund	Community Education Fund	Day Care Operations Fund	Total
Operating Revenues				
Food service sales	\$ 898,504	\$ -	\$ -	\$ 898,504
Other operating revenues	-	5,845	295,831	301,676
Total operating revenues	<u>898,504</u>	<u>5,845</u>	<u>295,831</u>	<u>1,200,180</u>
Operating Expenses				
Salaries and wages	1,288,595	1,461	337,479	1,627,535
Professional and contract services	32,580	3,671	-	36,251
Supplies and materials	1,398,667	493	-	1,399,160
Depreciation	64,849	-	-	64,849
Other operating expenses	3,866	1,209	565	5,640
Total operating expenses	<u>2,788,557</u>	<u>6,834</u>	<u>338,044</u>	<u>3,133,435</u>
Operating income (loss)	<u>(1,890,053)</u>	<u>(989)</u>	<u>(42,213)</u>	<u>(1,933,255)</u>
Nonoperating revenues (expenses)				
Federal grants	1,430,370	-	-	1,430,370
State grants	26,037	-	-	26,037
Other state funding	159,367	200	42,213	201,780
Donated commodities	215,278	-	-	215,278
Interest income	4,221	-	-	4,221
Total nonoperating revenues (expenses)	<u>1,835,273</u>	<u>200</u>	<u>42,213</u>	<u>1,877,686</u>
Net income (loss)	<u>(54,780)</u>	<u>(789)</u>	<u>-</u>	<u>(55,569)</u>
Total net assets, July 1, 2008	<u>1,019,838</u>	<u>3,118</u>	<u>-</u>	<u>1,022,956</u>
Total net assets, June 30, 2009	<u>\$ 965,058</u>	<u>\$ 2,329</u>	<u>\$ -</u>	<u>\$ 967,387</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2009

	Food Service Fund	Community Education Fund	Day Care Operations Fund	Total
Cash Flows from Operating Activities				
Cash received from lunchroom sales	\$ 898,504	\$ -	\$ -	\$ 898,504
Cash received from government grants	1,423,566	200	-	1,423,766
Cash received from other activities	178,064	5,845	295,831	479,740
Cash payments to employees for services	(1,288,595)	(1,461)	(337,479)	(1,627,535)
Less accrued liability	9,200	-	-	9,200
Cash payments to suppliers for goods and services	(1,229,433)	(4,354)	-	(1,233,787)
Cash payments for other operating activities	(3,866)	(1,209)	(565)	(5,640)
Net cash from operating activities	(12,560)	(979)	(42,213)	(55,752)
Cash Flows from Capital Financing Activities				
Capital contributions	-	-	-	-
Acquisition of capital assets	(37,675)	-	-	(37,675)
Net cash from capital financing activities	(37,675)	-	-	(37,675)
Cash Flows from Noncapital Financing Activities				
Nonoperating grants received	-	-	-	-
Net cash from noncapital financing activities	-	-	-	-
Cash Flows from Investing Activities				
Interest on investments	4,221	-	-	4,221
Net cash flows from investing activities	4,221	-	-	4,221
Net increase in cash and cash equivalents	(46,014)	(979)	-	(89,206)
Cash and cash equivalents - beginning	384,689	3,308	-	387,997
Cash and cash equivalents - ending	\$ 338,675	\$ 2,329	\$ -	\$ 341,004
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ (54,780)	\$ (789)	\$ -	\$ (55,569)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	64,849	-	-	64,849
Interest	(4,221)	-	-	(4,221)
Loss on disposal of assets	-	-	-	-
Changes in assets and liabilities:				
Receivables	(14,144)	-	-	(14,144)
Inventory	(8,009)	-	-	(8,009)
Accounts payable	(5,455)	(190)	-	(5,645)
Accrued liabilities	9,200	-	-	9,200
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Net Cash Provided by Operating Activities	\$ (12,560)	\$ (979)	\$ -	\$ (13,539)

Noncash noncapital financing activities:

During the year the district received \$ 215,278 of food commodities from the U.S. Department of Agriculture.

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

ASSETS	<u>Trust Fund</u>	<u>Agency Fund</u>	<u>Other Fiduciary Funds</u>	<u>Total</u>
Current Assets				
Cash and cash equivalents	\$ 94,747	\$ 485,994	\$ -	\$ 580,741
Accounts receivable	-	1,564	-	1,564
Total current assets	<u>94,747</u>	<u>487,558</u>	<u>-</u>	<u>582,305</u>
Noncurrent Assets				
Capital assets	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 94,747</u>	<u>\$ 487,558</u>	<u>\$ -</u>	<u>\$ 582,305</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ -	\$ 45,400	\$ -	\$ 45,400
Due to student groups	-	442,158	-	442,158
Total current liabilities	<u>-</u>	<u>487,558</u>	<u>-</u>	<u>487,558</u>
Noncurrent Liabilities				
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>487,558</u>	<u>-</u>	<u>487,558</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	-	-	-
Unrestricted	94,747	-	-	94,747
Total net assets	<u>\$ 94,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,747</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the year ended June 30, 2009

	Trust Fund	Other Fiduciary Funds	Total
Additions			
Net interest and investment gains (losses)	\$ 136	\$ -	\$ 136
Private donations	-	-	-
Other additions	1,547,651	-	1,547,651
Total additions	<u>1,547,787</u>	<u>-</u>	<u>1,547,787</u>
Deductions			
Scholarships awarded	-	-	-
Other deductions	1,547,183	-	1,547,183
Total deductions	<u>1,547,183</u>	<u>-</u>	<u>1,547,183</u>
Transfers out	<u>-</u>		<u>-</u>
Change in net assets	604	-	604
Total net assets, July 1, 2008	<u>94,143</u>	<u>-</u>	<u>94,143</u>
Total net assets, June 30, 2009	<u><u>\$ 94,747</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 94,747</u></u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Muhlenberg County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Muhlenberg County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Muhlenberg County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Muhlenberg County School District Finance Corporation - On July 22, 1988, the Muhlenberg County, Kentucky, Board of Education resolved to authorize the establishment of the Muhlenberg County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Muhlenberg County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category - *governmental* and *proprietary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District has the following funds:

Governmental Fund Types

These are the funds through which most governmental functions typically are financed. These funds included in this category are as follows:

General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.

Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Types (continued)

The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Types

These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U. S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Community Education Fund is used to account for educational classes offered to the general public.

The Day Care Operations Fund is used to account for after-school and summer day care services offered to the general public.

The District applies all Governmental Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Internal Service Funds are established to account for the operation of district services that provide goods or services to other district functions, or to other districts, or to other governmental units, on a cost-reimbursable basis. This fund may also be used to account for funds passed through the district in the case of the district acting as a fiscal agent for a particular group.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Fund Type (includes agency and trust funds)

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds).

The Agency Fund consists of Activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Accounting Procedures for Kentucky School Activity Funds*.

The Trust Fund consists of Revolving funds of the County Employees Retirement System Revolving Fund and the Kentucky KARE Revolving Fund.

The County Employees Retirement System Revolving Fund is a fund used to meet retirement obligations.

The Kentucky KARE Revolving Fund is a fund used to meet monthly insurance premiums. The balance at June 30, 2009, is to pay premiums for July and August, 2009. The balance has accumulated as a result of withholdings by the District over a ten-month period to pay premiums over twelve months.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Investments

KRS 66.480 authorizes the District to invest in obligations of the United States, U.S. government obligations and contracts, obligations of U.S. government corporations, certificates of deposit, uncollateralized CD's, banker's acceptances, commercial paper, bonds of Kentucky, securities issued by states or local governments or shares of mutual funds

The District adopted GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This standard requires investments to be accounted for at fair value, which is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Budgetary Process

The District is required by state law to adopt annual budgets for the general fund, special revenue funds, debt service fund and capital projects fund. Each budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles (GAAP).

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to May 15 of the preceding fiscal year, the district prepares a tentative working budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Education is then called for the purpose of adopting the tentative working budget by May 15.
3. Prior to September 15, the working budget is legally enacted through passage of a resolution by the Board of Education.
4. The budget must be submitted to the Kentucky Board of Education by September 15 for approval.

Once the budget is approved, it can be amended at the Function and Fund level. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended. Individual amendments were not material in relation to original appropriations. All budget appropriations lapse at year-end.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Inventory in the General Fund consists of transportation supplies. All other supplies and materials in the General Fund are charged to expenditures when purchased. Inventories are valued at cost using the first-in, first-out method.

The Food Service Fund's inventories consist of food and supplies valued at cost and government commodities, whose value is determined by the U.S. Department of Agriculture.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Amortization expense for capital leases is included with depreciation expense. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

The Districts ad valorem property tax is levied each November 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The assessed value of the certified roll, upon which the levy for the 2008 fiscal year was based, was \$ 1,399,195,968.

The tax rates assessed for the year ended June 30, 2009 to finance general fund operations and the FSPK Fund were \$.436 and \$.061 per \$ 100 valuation, respectively, for a total of \$.497 per \$ 100 valuation.

Taxes are due on November 1 and become delinquent by January 1 following the November 1 levy date. Current tax collections for real property the year ended June 30, 2009 were 93.0% of the tax levy.

All property taxes collected are recorded as revenues in the general fund except for the portion (6.1¢) that must be recorded in the FSPK Fund. The 6.1¢ is the amount necessary to produce the required 5¢ levy.

Deferred Revenues

Revenues from federal, state and local grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned in the governmental funds financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

The District is required to execute a bond of depository. The depository bank deposits, for safekeeping and trust with the District's third party agent, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. That amount is \$ 15,459,615 for the two year period ended June 30, 2009.

Under the depository contract, the District, at its own discretion, invests funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's investment policy requires the District's finance officer to monitor the safety of investments. Also, the District is required by state statute that bank deposits in excess of FDIC insurance must be collateralized. The District's bank balance was not exposed to custodial credit risk as of June 30, 2009.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE C - CASH AND CASH EQUIVALENTS (continued)

At year end, the carrying amount of the District's cash and cash equivalents was \$ 13,718,550. Of the total cash balance, \$ 565,206 was covered by Federal depositary insurance, \$ 757,031 was collateralized by the Kentucky School District Liquid Asset Fund Plus, held by the agent in the District's name, \$ 764,982 was in Goldman Sachs Money Market and was not insured, \$3,377,514 was a repurchase agreement with Old National Bank secured by the Federal National Mortgage Association, with the remainder covered by collateral held by the pledging bank's trust department in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2009 consisted of the following:

	Bank Balance	Book Balance
Old National Bank – checking	\$ 6,667,076	\$ 5,039,658
Old National Bank – certificate of deposit	5,000,000	5,000,000
Old National Trust – money market	764,982	764,982
Kentucky School District Liquid Asset Fund Plus	757,031	757,031
School Activity Funds – checking	449,382	405,915
School Activity Funds – certificates of deposit	80,079	80,079
	<u>\$ 13,718,550</u>	<u>\$ 12,047,665</u>

Breakdown per financial statements:

Governmental funds	\$ 11,125,920
Proprietary funds	341,004
Private purpose trust funds	94,747
Agency funds	485,994
	<u>\$ 12,047,665</u>

Due to the nature of the funds and limitations imposed by bond issue requirements, construction projects, and federal financial assistance programs, cash within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Bond and Interest Redemption Fund, School Construction Fund, Special Revenue (Grant) Funds and the Technology Fund.

General fund restricted cash as of June 30, 2009 consists of \$ 24,964 restricted for the betterment of school libraries.

NOTE D - INVESTMENTS

The former Greenville Independent School System, since merged with the District, was bequeathed 1/8 of an estate in 1970. In addition, the School System was bequeathed 1/4 of the principal of two trust funds. In accordance with the bequest, the income of the assets is restricted for use for the betterment of school libraries.

Investments are included in the balance sheet at fair market value, under the caption Investments. The types of investments categorized below represent all types of investments utilized by the District during the period as of June 30, 2009:

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE D - INVESTMENTS (continued)

<u>Fund Type</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (months)</u>	<u>Rating</u>
Governmental	Common Stock	\$ 417,496	N/A	N/R
Governmental	Federal National Mortgage Association	2,821,037	18.64	AAA
Governmental	Federal National Mortgage Association Pool	3,792,419	67.57	AAA
Total		<u>\$ 7,030,952</u>		

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value and investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statutes. All investments held by the District are insured or collateralized with securities held by the District or by its agent in the District's name, except for the money market mutual funds.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the District may invest in any one issuer. However, the amount of money the District invests at any time in uncollateralized certificates of deposit issued by any bank, bankers acceptances for banks, commercial paper or securities issued by a state or local government or any agency thereof shall not exceed individually or in total 20% of total investments. More than 5 percent of the District's investments are in common stock, Federal National Mortgage Association and Federal National Mortgage Association Pool. These investments are 5.9%, 40.1% and 54.0%, respectively, of the District's total investments.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 2,510,490	\$ -	\$ -	\$ 2,510,490
Construction in progress	3,903,272	616,811	4,427,152	92,931
Total capital assets not depreciated	<u>6,413,762</u>	<u>616,811</u>	<u>4,427,152</u>	<u>2,603,421</u>
Capital assets depreciated:				
Land improvements	1,813,459	-	-	1,813,459
Buildings	63,133,882	4,427,152	-	67,561,034
Equipment	2,469,241	125,141	8,466	2,585,916
Technology equipment	4,293,220	161,707	428,721	4,026,206
Vehicles	5,224,159	534,187	-	5,758,346
Total capital assets depreciated	<u>76,933,961</u>	<u>5,248,187</u>	<u>437,187</u>	<u>81,744,961</u>
Less accumulated depreciation:				
Land improvements	768,039	86,398	-	854,437
Buildings	15,535,460	1,528,342	-	17,063,802
Equipment	1,496,792	175,639	3,245	1,669,186
Technology equipment	2,727,467	491,968	425,555	2,793,880
Vehicles	3,676,649	305,956	-	3,982,605
Total accumulated depreciation	<u>24,204,407</u>	<u>2,588,303</u>	<u>428,800</u>	<u>26,363,910</u>
Total capital assets depreciated, net	<u>52,729,554</u>	<u>2,659,884</u>	<u>8,387</u>	<u>55,381,051</u>
Total capital assets, net	<u>\$ 59,143,316</u>	<u>\$ 3,276,695</u>	<u>\$ 4,435,539</u>	<u>\$ 57,984,472</u>
Business-type activities:				
Capital assets depreciated:				
Buildings	\$ 130,186	\$ -	\$ -	\$ 130,186
Food service equipment	1,163,021	37,675	-	1,200,696
Equipment	-	-	-	-
Furniture and fixtures	-	-	-	-
Technology equipment	2,765	-	-	2,765
Total capital assets depreciated	<u>1,295,972</u>	<u>37,675</u>	<u>-</u>	<u>1,333,647</u>
Less accumulated depreciation:				
Buildings	95,706	4,135	-	99,841
Food service equipment	783,430	60,161	-	843,591
Equipment	-	-	-	-
Furniture and fixtures	-	-	-	-
Technology equipment	1,956	553	-	2,509
Total accumulated depreciation	<u>881,092</u>	<u>64,849</u>	<u>-</u>	<u>945,941</u>
Total capital assets depreciated, net	<u>414,880</u>	<u>(27,174)</u>	<u>-</u>	<u>387,706</u>
Total capital assets, net	<u>\$ 414,880</u>	<u>\$ (27,174)</u>	<u>\$ -</u>	<u>\$ 387,706</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated."

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying basic financial statements as bonds payable represents the District's future obligations to make payments relating to the bonds issued by the Kentucky School Facility Construction Commission and the Kentucky Interlocal School Transportation Association (KISTA).

The original amount of each issue, the issue dates, and interest rates are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Rate</u>	<u>Matures</u>
Issue of 1993 (SFCC)	\$ 610,000	2.90% - 5.50%	May 1, 2013
KISTA - 1997 Series (SFCC)	700,000	4.10% - 5.50%	June 1, 2017
School Building Revenue Bonds Series 2000	5,270,000	4.75% - 5.40%	May 1, 2020
School Building Refunding Revenue Bonds Series 2002	7,830,000	1.70% - 4.50%	August 1, 2013
School Building Revenue Bonds Series 2003 (SFCC)	7,640,000	2.00% - 4.50%	September 1, 2023
School Building Revenue Bonds Series 2004 (SFCC)	12,310,000	2.50% - 4.63%	April 1, 2024
School Building Refunding Revenue Bonds Series 2007	4,015,000	3.40% - 3.90%	March 1, 2020
School Building Revenue Bonds Series 2007	2,000,000	3.63% - 4.00%	May 1, 2027

The District through the General Fund (including the Facility Support Program in Kentucky (FSPK) Fund and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kentucky School Facility Construction Commission and the Kentucky Interlocal School Transportation Association (KISTA) to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the Kentucky School Facility Construction Commission (SFCC). The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. This agreement provides that the commission will remit a stated amount of bond principal and interest payments subject to approval by the Kentucky General Assembly biennially. The District remains obligated for the full amount if approval is not obtained. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

On May 1, 1993, the Muhlenberg County School District Finance Corporation (Corporation) entered into a loan agreement with the SFCC for improvements and renovations of Muhlenberg North and South Middle Schools. The total loan amount is \$ 610,000 and is to be repaid over 20 years with interest rates varying between 2.9% to 5.50%.

On December 1, 1997 the District entered into a lease agreement with the Kentucky Interlocal School Transportation (KISTA) for the construction of eight classrooms at Central City Elementary School. The total loan amount is \$700,000 and is to be repaid over 20 years with interest rates varying between 4.10% to 5.5%. The entire amount will be repaid by the SFCC.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT (continued)

On March 16, 2000, the Muhlenberg County School District Finance Corporation issued School Building Revenue Bonds, Series of 2000 in the amount of \$ 5,270,000. These bonds were issued to provide the required funds to complete additions and renovations at Muhlenberg North Middle School. The bond is to be repaid over 20 years with interest rates varying between 4.75% to 5.40%. A portion of these bonds, \$3,655,000 were defeased in 2007.

On January 17, 2001, the Muhlenberg County School District Finance Corporation issued Qualified Zone Academy Revenue Bonds, Series of 2001 in the amount of \$ 767,000. These bonds were issued to provide the required funds to complete additions and renovations at Muhlenberg North Middle School. There will be no interest payment on the bonds. Holders are entitled to a credit against taxable income. The Board placed \$387,581 into an escrowed Guaranteed Investment Contract to defease the bonds by its maturity date of January 30, 2014.

On April 1, 2002, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2002 for \$ 7,830,000 with an average interest rate of 4.03% to advance refund term bonds with an average interest rate of 5.84% and a value of \$ 7,370,000. The term bonds mature on August 1, 2013 and are callable on August 1, 2012. The revenue bonds were issued at par and, after paying issuance costs of \$ 143,516, the net proceeds were \$7,686,484. The net proceeds from the issuance of the revenue bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on August 1, 2002. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$ 407,777, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 316,146.

On August 1, 2003, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Revenue Bonds, Series of 2003 for \$7,640,000. These bonds were issued to finance the construction of the new Greenville Elementary School. The bond is to be repaid over 20 years maturing on September 1, 2023 with interest rates varying between 2.00% and 4.50%.

On April 1, 2004, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Revenue Bonds, Series of 2004 for \$12,310,000. These bonds were issued to finance the construction of the new South Elementary School and improvements at Longest Elementary School. The bond is to be repaid over 20 years with interest rates varying between 2.5% and 4.65%.

On January 3, 2007, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2007 for \$ 4,015,000 with an average interest rate of 3.739% to advance refund term bonds with an average interest rate of 5.388% and a value of \$ 3,655,000. The term bonds mature on March 1, 2020 and are callable on January 1, 2017. The revenue bonds were issued at par and, after paying issuance costs of \$ 76,240, the net proceeds were \$3,938,760. The net proceeds from the issuance of the revenue bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on March 16, 2020. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$ 243,093, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 196,059.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT (continued)

On May 1, 2007, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Revenue Bonds, Series of 2007 for \$2,000,000. These bonds were issued to finance the construction of the new Central City Elementary School gymnasium. The bond is to be repaid over 20 years maturing on May 1, 2027 with interest rates varying between 3.625% and 4.00%.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2009 for debt service (principal and interest) are as follows:

Year	Muhlenberg County School District		School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2009-10	\$ 1,001,076	\$ 649,056	\$ 640,924	\$ 496,179	\$ 2,787,235
2010-11	1,041,265	605,015	667,735	469,368	2,783,383
2011-12	1,090,143	558,079	695,857	441,246	2,785,325
2012-13	1,134,165	511,905	723,835	413,268	2,783,173
2013-14	1,168,774	471,399	721,226	384,012	2,745,411
2014-15	1,016,883	428,929	750,117	355,122	2,551,051
2015-16	1,054,219	389,509	780,781	324,458	2,548,967
2016-17	1,095,101	347,822	812,899	292,339	2,548,161
2017-18	1,138,355	303,817	791,645	257,989	2,491,806
2018-19	1,185,521	257,367	824,479	225,109	2,492,476
2019-20	1,235,475	208,041	859,525	190,033	2,493,074
2020-21	857,214	155,674	767,786	153,256	1,933,930
2021-22	897,944	117,150	802,056	118,985	1,936,135
2022-23	912,098	76,399	837,902	83,139	1,909,538
2023-24	941,234	34,796	853,766	45,273	1,875,069
2024-25	67,489	8,195	62,511	7,805	146,000
2025-26	69,989	5,495	65,011	5,305	145,800
2026-27	67,388	2,696	67,612	2,704	140,400
	<u>\$ 15,974,333</u>	<u>\$ 5,131,343</u>	<u>\$ 11,725,667</u>	<u>\$ 4,265,590</u>	<u>\$ 37,096,933</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT (continued)

A summary of Long-term liability activity for the year ended June 30, 2009 as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
PRIMARY GOVERNMENT					
Governmental activities:					
KISTA	\$ 390,000	\$ —	\$ (35,000)	\$ 355,000	\$ 37,000
Revenue bonds	28,885,000	—	(1,540,000)	27,345,000	1,605,000
Accrued Sick Leave	1,103,821	562,621	(317,567)	1,348,875	250,000
	<u>\$30,378,821</u>	<u>\$ 562,621</u>	<u>\$ (1,892,567)</u>	<u>\$29,048,875</u>	<u>\$ 1,892,000</u>

NOTE G - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2009, this amount totaled \$ 1,348,875 for employees with 5 or more years of experience.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that payment is probable. The liability is based on the District's accumulated benefits as of the balance sheet date.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

NOTE H - RETIREMENT PLANS

Kentucky Teachers' Retirement System (KTRS)

Plan Description: The Muhlenberg County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

Funding Policy: Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 14.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE H - RETIREMENT PLANS (continued)

Kentucky Teachers' Retirement System (KTRS) (continued)

The Muhlenberg County School District's total payroll for the year was \$ 31,087,654. The payroll for employees covered under KTRS was \$ 23,716,207. For the year ended June 30, 2009, the Commonwealth contributed \$2,337,198 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the year ending June 30, 2009 were \$ 284,663 which represents those employees covered by federal programs.

Benefits: The pension plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All benefits vest after five years of service.

On-behalf Payments: The District records the 14.105% contributions made by the Commonwealth of Kentucky, as required to conform with generally accepted accounting principles. This amount was \$ 2,337,198.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

County Employees Retirement System (CERS)

Plan Description: All full-time employees of the Muhlenberg County School District that are not covered under KTRS, are covered by the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit plan. KRS 78.510 through 78.852 of the Commonwealth of Kentucky assigns the authority to establish and amend the benefit provision of the plan. The County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124, or by calling 502-564-4646.

Funding Policy: CERS members are required to contribute 5% of their gross earnings to the pension plan. The District is required to contribute at an actuarially determined rate; the current rate is 13.5% of the annual covered payroll. The contribution requirements of plan members and the employers are established and may be amended by the CERS Board of Trustees as required by KRS 61.565.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE H - RETIREMENT PLANS (continued)

The District's total payroll for the year ended June 30, 2009 was \$ 31,087,654 and the payroll for employees covered under CERS was \$ 6,806,130.

The contribution requirement for CERS for the year ended June 30, 2009 was \$ 1,260,021 which consisted of \$ 918,816 from the District and \$ 341,205 from the employees.

Benefits: The pension plan provides for retirement, disability, and death benefits. A member may retire after reaching the age of 55 or accumulating 27 years of service with the District or another entity covered by the CERS. Benefits vest after 5 years of service. Employees who retire at or after age 65 with 48 or more months of credited service are entitled to pension payments for the remainder of their lives equal to between 2.0% and 2.2% of their final, five-year average salary times the number of years for which they were employed by a participant in the retirement system. The final compensation is the average of the five fiscal years during which the member had the highest average monthly salary.

Pension provisions include death and disability benefits. Disability benefits are calculated the same as for normal retirement except that additional years of service may be added to the employee's account, depending on the employee's age and years of service. Death benefits payable to the beneficiary are based on the amount payable had the member filed for retirement at the time of death. If the beneficiary is one person, that person may choose a lifetime monthly benefit.

Three-year Trend Information. Employer contributions (in thousands):

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 818	100%	\$ -0-
2008	\$ 1,076	100%	\$ -0-
2009	\$ 918	100%	\$ -0-

NOTE I - COMMITMENTS AND CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

On February 1, 2006 the District entered into a contract with Cinergy Communications Company to provide a district-wide fiber optic network between the central office and each of the individual schools and the bus garage. The total contract price is \$ 600,000 of which \$ 107,707 was expended on the project at June 30, 2009.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

On December 28, 2006 the District entered into a lease agreement with the Central Kentucky Educational Cooperative, Inc. (CKEC) to provide up to \$ 750,000 worth of electronic equipment to five schools. In consideration of this lease, the District agreed to pay \$ 75,000 for the initial term ending June 30, 2007 and \$ 150,000 for each succeeding year through November 15, 2011. The Board has the right, with a 60 day notice, not to exercise its option to renew each year.

On December 14, 2008 the District agreed to make a \$ 75,000 donation to the University of Kentucky Muhlenberg County Fine Arts Extension Agent Fund. This donation is payable in five installments of \$ 15,000 per year, beginning January 1, 2009 and ending January 1, 2013.

NOTE J - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE K - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis. Contributions to the KARE Workers Compensation Plan for worker's compensation are based on premium rates established by such fund, subject to claims experience modifications and a group discount amount. Annual payroll audits are conducted by the Fund with a balance due or receivable.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L - DEFICIT OPERATING/FUND BALANCES

There are no funds of the District which currently have a deficit fund balance. The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Community Education Fund	\$ (789)
General Fund	(1,826,646)
Food Service Fund	(54,780)

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE M - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	1	2	Technology Match	\$ 99,685
Operating	1	360	Construction	5,468,343
Operating	1	400	Debt Service Obligations	128,036
Operating	320	400	Debt Service Obligations	1,189,666
Operating	310	400	Debt Service Obligations	463,649
				<u>\$ 7,349,379</u>

NOTE O - DEFERRED COMPENSATION PLAN

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 401(k) and 403(b). Employees are allowed to contribute to the Plans up to the Internal Revenue Code maximum allowable amount. The District does not contribute to the Plans.

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its statements.

Investments are managed by the Plan's trustee under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

NOTE P - SIGNIFICANT TAXPAYER

For the year ended June 30, 2009, the District received \$ 8,929,836 from the Tennessee Valley Authority (TVA) as payment in-lieu-of-tax, which represented 17.0% of total governmental fund revenues.

NOTE Q - ON - BEHALF PAYMENTS

For the year ended June 30, 2009, total payments of \$ 7,416,766 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. For the year ended June 30, 2009, total payments of \$ 169,510 were made for vocational expenses by the Department for Workforce Investment. For the year ended June 30, 2009, total payments of \$ 1,137,103 were made for bond payments by the Kentucky School Facility Construction Commission. These payments were recognized as on-behalf payments and recorded in the appropriate fund's revenue and expense accounts on the statement of revenue, expenditures and changes in fund balances.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE R – PROMISE TO GIVE

On May 21, 2009, the District entered into a charitable gift agreement with the Felix E. Martin, Jr. Foundation in which the Foundation agrees to make a grant of \$ 500,000 to the District toward the construction of the Muhlenberg County High School, West Campus Auditorium. In exchange for the agreement, the District agrees to follow certain building conditions and to name the auditorium the "Felix E. Martin, Jr. Hall." Payment will be made as follows; one-third when the first construction draw is approved, one-third when the building is 50% complete and one-third when the project is completed.

NOTE S - SUBSEQUENT EVENTS

On July 1, 2009, Muhlenberg North High School and Muhlenberg South High School were merged together to form Muhlenberg County High School. The former Muhlenberg North is now the West Campus and will educate 11th and 12th graders, while Muhlenberg South is now the East Campus and will educate 9th and 10th graders.

On July 1, 2009, Kentucky Tech was absorbed into the Muhlenberg County School District.

The District did not have any other subsequent events through November 12, 2009, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2009.

SUPPLEMENTARY INFORMATION

MUHLENBERG COUNTY SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Property taxes	\$ 4,315,000	\$ 4,650,000	\$ 4,641,804	\$ (8,196)
Motor vehicle taxes	825,000	750,000	828,913	78,913
Unmined minerals	125,000	125,000	129,341	4,341
Utility taxes	-	-	-	-
Other taxes	23,000	85,000	119,772	34,772
Revenue other local government units	7,333,269	8,929,836	8,929,836	-
Tuition and fees	-	-	-	-
Transportation	169,000	196,211	171,929	(24,282)
Earnings on investments	853,000	453,000	298,203	(154,797)
Student activities	-	-	-	-
Community service activities	6,480	5,000	3,860	(1,140)
Other local revenues	85,716	119,118	65,886	(53,232)
State sources				
SEEK	23,359,095	21,916,748	21,916,748	-
Other	155,559	7,046,882	7,522,107	475,225
Federal - direct	75,000	70,000	101,375	31,375
Federal - indirect	-	-	-	-
Intermediate sources	-	-	-	-
Other revenues	6,000	23,000	66,871	43,871
Total revenues	37,331,119	44,369,795	44,796,645	426,850
Expenditures				
Instruction	21,229,951	20,712,809	26,593,862	(5,881,053)
Support services				
Student	1,312,778	1,100,084	1,351,848	(251,764)
Instruction staff	831,420	992,388	1,114,046	(121,658)
District administration	1,614,654	1,760,698	1,140,025	620,673
School administration	1,672,993	1,555,403	1,764,641	(209,238)
Business	864,349	807,311	903,063	(95,752)
Plant operation and maintenance	4,315,770	4,572,273	4,979,621	(407,348)
Student transportation	2,917,869	2,898,655	2,921,815	(23,160)
Central office	-	-	-	-
Food service operation	68,523	55,900	60,063	(4,163)
Community services	76,800	108,265	64,868	43,397
Facilities acquisition and construction	13,592,268	16,070,252	33,375	16,036,877
Other	2,593,255	2,642,237	-	2,642,237
Total expenditures	51,090,630	53,276,275	40,927,227	12,349,048
Excess (deficit) of revenues over expenditures	(13,759,511)	(8,906,480)	3,869,418	12,775,898
Other Financing Sources (Uses)				
Capital lease proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(128,036)	(5,696,064)	(5,696,064)	-
Total other financing sources (uses)	(128,036)	(5,696,064)	(5,696,064)	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(13,887,547)	(14,602,544)	(1,826,646)	12,775,898
Net change in fund balances	(13,887,547)	(14,602,544)	(1,826,646)	12,775,898
Fund balance, July 1, 2008	13,887,547	14,602,544	15,310,029	707,485
Fund balance, June 30, 2009	\$ -	\$ -	\$ 13,483,383	\$ 13,483,383

Note : On-behalf payments are not budgeted.

MUHLENBERG COUNTY SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule - Special Revenue Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Property taxes	\$ -	\$ -	\$ -	\$ -
Motor vehicle taxes	-	-	-	-
Unmined minerals	-	-	-	-
Utility taxes	-	-	-	-
Other taxes	-	-	-	-
Revenue other local government units	-	-	-	-
Tuition and fees	-	-	-	-
Transportation	-	-	-	-
Earnings on investments	-	-	23,635	23,635
Student activities	-	-	-	-
Other local revenues	-	-	-	-
State sources	-	-	-	-
SEEK	-	-	-	-
Other	1,499,553	1,567,774	1,853,235	285,461
Federal - direct	95,000	115,948	202,232	86,284
Federal - indirect	3,361,135	5,491,648	3,508,809	(1,982,839)
Intermediate sources	96,500	133,024	115,775	(17,249)
Other revenues	-	-	-	-
Total revenues	5,052,188	7,308,394	5,703,686	(1,604,708)
Expenditures				
Instruction	3,215,470	6,295,793	4,440,806	1,854,987
Support services				
Student	1,006,387	159,966	120,202	39,764
Instruction staff	112,250	84,904	129,230	(44,326)
District administration	-	-	-	-
School administration	-	-	-	-
Business	108,672	253,706	423,617	(169,911)
Plant operation and maintenance	-	-	-	-
Student transportation	87,153	87,153	165,109	(77,956)
Central office	-	-	-	-
Food service operation	-	-	-	-
Community services	522,256	526,557	524,407	2,150
Facilities acquisition and construction	-	-	-	-
Other	-	-	-	-
Total expenditures	5,052,188	7,408,079	5,803,371	1,604,708
Excess (deficit) of revenues over expenditures	-	(99,685)	(99,685)	-
Other Financing Sources (Uses)				
Operating transfers in	-	99,685	99,685	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	99,685	99,685	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balance, July 1, 2008	-	-	-	-
Fund balance, June 30, 2009	\$ -	\$ -	\$ -	\$ -

**MUHLENBERG COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009**

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Govt. Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 474,123	\$ -	\$ 474,123
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes - current	-	-	-	-
Taxes - delinquent	-	-	-	-
Other	-	-	-	-
Intergovernmental - State	-	-	-	-
Intergovernmental - Federal	-	-	-	-
Prepaid expense	-	-	-	-
Due from other funds	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 474,123</u>	<u>\$ -</u>	<u>\$ 474,123</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Retained percentage contracts	-	-	-	-
Accrued payroll and related expenses	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenues	-	-	-	-
Obligations under capital lease	-	-	-	-
Debt obligations	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted for inventory/fixed assets	-	-	-	-
Restricted for libraries	-	-	-	-
Encumbrances - current year	-	-	-	-
Restricted for construction	-	10,882	-	10,882
Unreserved	-	463,241	-	463,241
Total fund balances	<u>-</u>	<u>474,123</u>	<u>-</u>	<u>474,123</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 474,123</u>	<u>\$ -</u>	<u>\$ 474,123</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2009

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Govt. Funds
Revenues				
From local sources				
Property taxes	\$ -	\$ 699,598	\$ -	\$ 699,598
Motor vehicle taxes	-	-	-	-
Unmined minerals	-	-	-	-
Utility taxes	-	-	-	-
Other taxes	-	-	-	-
Revenue other local government units	-	-	-	-
Tuition and fees	-	-	-	-
Transportation	-	-	-	-
Earnings on investments	-	-	-	-
Student activities	-	-	-	-
Other local revenues	-	-	-	-
State sources				
SEEK	-	-	-	-
Other	463,649	953,310	-	1,416,959
Intermediate sources	-	-	-	-
Federal - direct	-	-	-	-
Federal - indirect	-	-	-	-
Other revenues	-	-	-	-
Total revenues	<u>463,649</u>	<u>1,652,908</u>	<u>-</u>	<u>2,116,557</u>
Expenditures				
Instruction	-	-	-	-
Support services				
Student	-	-	-	-
Instruction staff	-	-	-	-
District administration	-	-	-	-
School administration	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Food service operation	-	-	-	-
Community service activities	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Other	-	-	1,781,351	1,781,351
Total expenditures	<u>-</u>	<u>-</u>	<u>1,781,351</u>	<u>1,781,351</u>
Excess (deficit) of revenues over expenditures	<u>463,649</u>	<u>1,652,908</u>	<u>(1,781,351)</u>	<u>335,206</u>
Other Financing Sources (Uses)				
Proceeds of refunding debt	-	-	-	-
Payment to refunding debt escrow agent	-	-	-	-
Operating transfers in	-	-	1,781,351	1,781,351
Operating transfers out	(463,649)	(1,189,666)	-	(1,653,315)
Total other financing sources (uses)	<u>(463,649)</u>	<u>(1,189,666)</u>	<u>1,781,351</u>	<u>128,036</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>463,242</u>	<u>-</u>	<u>463,242</u>
Net change in fund balances	<u>-</u>	<u>463,242</u>	<u>-</u>	<u>463,242</u>
Fund balance, July 1, 2008	<u>-</u>	<u>10,882</u>	<u>-</u>	<u>10,882</u>
Fund balance, June 30, 2009	<u>\$ -</u>	<u>\$ 474,124</u>	<u>\$ -</u>	<u>\$ 474,124</u>

ASSETS										
Cash and cash equivalents	\$ 13,952	\$ 44,833	\$ 24,595	\$ 88,910	\$ 23,685	\$ 37,499	\$ 22,682	\$ 123,501	\$ 106,337	\$ 485,994
Accounts receivable	-	516	-	-	1,048	-	-	-	-	1,564
Total Assets	<u>\$ 13,952</u>	<u>\$ 45,349</u>	<u>\$ 24,595</u>	<u>\$ 88,910</u>	<u>\$ 24,733</u>	<u>\$ 37,499</u>	<u>\$ 22,682</u>	<u>\$ 123,501</u>	<u>\$ 106,337</u>	<u>\$ 487,558</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ -	\$ -	\$ 104	\$ -	\$ 134	\$ -	\$ -	\$ 15,710	\$ 29,452	\$ 45,400
Due to student groups	13,952	45,349	24,491	88,910	24,599	37,499	22,682	107,791	76,885	442,158
Total liabilities	<u>13,952</u>	<u>45,349</u>	<u>24,595</u>	<u>88,910</u>	<u>24,733</u>	<u>37,499</u>	<u>22,682</u>	<u>123,501</u>	<u>106,337</u>	<u>487,558</u>
Fund Balances										
Unrestricted	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 13,952</u>	<u>\$ 45,349</u>	<u>\$ 24,595</u>	<u>\$ 88,910</u>	<u>\$ 24,733</u>	<u>\$ 37,499</u>	<u>\$ 22,682</u>	<u>\$ 123,501</u>	<u>\$ 106,337</u>	<u>\$ 487,558</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
AGENCY FUNDS
For the year ended June 30, 2009

	Bremen Elementary School	Central City Elementary School	Greenville Elementary School	Longest Elementary School	Muhlenberg South Elementary School	Muhlenberg North Middle School	Muhlenberg South Middle School	Muhlenberg North High School	Muhlenberg South High School	Totals
Revenues										
From local sources										
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor vehicle taxes	-	-	-	-	-	-	-	-	-	-
Unmined minerals	-	-	-	-	-	-	-	-	-	-
Utility taxes	-	-	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-	-	-
Revenue other local government units	-	-	-	-	-	-	-	-	-	-
Tuition and fees	-	-	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-	-	-
Earnings on investments	-	-	-	-	-	-	-	-	-	-
Student activities	149,432	164,526	73,657	308,778	91,915	80,072	95,172	434,276	299,119	1,696,947
Other local revenues	-	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-	-
SEEK	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-
Federal - direct	-	-	-	-	-	-	-	-	-	-
Federal - indirect	-	-	-	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	-	-	-	-
Total revenues	149,432	164,526	73,657	308,778	91,915	80,072	95,172	434,276	299,119	1,696,947
Expenditures										
Instruction	149,665	158,119	75,709	298,771	90,090	88,878	111,902	466,148	334,519	1,773,801
Support services	-	-	-	-	-	-	-	-	-	-
Student	-	-	-	-	-	-	-	-	-	-
Instruction staff	-	-	-	-	-	-	-	-	-	-
District administration	-	-	-	-	-	-	-	-	-	-
School administration	-	-	-	-	-	-	-	-	-	-
Business	-	-	-	-	-	-	-	-	-	-
Plant operation and maintenance	-	-	-	-	-	-	-	-	-	-
Student transportation	-	-	-	-	-	-	-	-	-	-
Central office	-	-	-	-	-	-	-	-	-	-
Food service operation	-	-	-	-	-	-	-	-	-	-
Community service activities	-	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Other	(233)	5,407	(2,052)	10,007	1,825	(8,806)	(16,730)	(31,872)	(35,400)	(76,854)
Total expenditures	149,432	164,526	73,657	308,778	91,915	80,072	95,172	434,276	299,119	1,696,947
Excess (deficit) of revenues over expenditures	-	-	-	-	-	-	-	-	-	-
Other Financing Sources (Uses)										
Operating transfers in	-	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	-	-	-
Fund balance, July 1, 2008	-	-	-	-	-	-	-	-	-	-
Fund balance, June 30, 2009	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

MUHENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHENBERG NORTH HIGH SCHOOL
ACTIVITY FUND

Year Ended June 30, 2009

	Cash Balance 6/30/08	Receipts	Dis- bursements	Cash Balance 6/30/09	Accounts Receivable (Payable)	Due to Student Groups 6/30/09
	\$	\$	\$	\$	\$	\$
Academic Team	72	161	199	34	-	34
Annual	5,760	29,358	32,209	2,909	-	2,909
Art Club	620	1,642	2,083	179	-	179
Art Dept.	256	614	796	74	-	74
Athletic Boosters	8,972	17,967	19,839	7,099	-	7,099
Athletic Fund	4,492	78,484	61,982	20,994	-	20,994
Band	638	3,276	3,825	89	-	89
Baseball	4,087	-	999	3,088	-	3,088
Baseball Trip	-	-	-	-	-	-
Beta Club	375	4,532	4,715	192	-	192
Book Rentals	-	6,410	6,410	-	-	-
Book Store	422	131	-	553	-	553
Boy's Basketball	2,681	1,088	3,769	-	-	-
Business Dept.	904	150	205	849	-	849
CEC Club	70	-	-	70	-	70
Cheerleaders	1,191	3,036	1,870	2,357	-	2,357
Chorus	175	10	43	142	-	142
Christian Athletes	42	-	-	42	-	42
Teachers' Materials	1,049	-	-	1,049	-	1,049
Class of 2007-2008	129	-	-	129	-	129
Class of 2008-2009	284	-	-	-	-	-
Class of 2009-2010	-	1,552	1,836	-	-	-
Computers	1,596	16,388	16,388	1,596	-	1,596
Concessions	5,674	25,218	25,591	5,301	-	5,301
Cross Country	1,309	537	1,846	-	-	-
Dance	435	4,770	5,139	66	-	66
D.E.C.A. Club	609	1,133	1,390	352	-	352
Drama	349	307	123	532	-	532
Drama Club	1,655	6,927	6,353	2,229	-	2,229
English Dept.	65	170	160	75	-	75
Extra Work To Board	-	4,394	4,394	-	-	-

MUHENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHENBERG NORTH HIGH SCHOOL
ACTIVITY FUND

Year Ended June 30, 2009

	Cash Balance 6/30/08	Receipts	Dis- bursements	Cash Balance 6/30/09	Accounts Receivable (Payable)	Due to Student Groups 6/30/09
	\$	\$	\$	\$	\$	\$
Faculty and Staff Gift	14	243	240	17	-	17
FBLA Club	1	2,974	2,827	148	-	148
FFA	1,486	26,571	26,177	1,881	-	1,881
FFA Grant	-	1,900	-	1,900	-	1,900
FCCLA	1,754	4,696	5,555	894	-	894
Family and Consumer Science	1,273	8,258	9,123	408	-	408
Football	11,178	3,000	14,170	8	-	8
Future Educators of America	228	12	-	240	-	240
General Fund (incl. Sweep Acct)	1,878	25,283	24,915	2,246	-	2,246
Girl's Basketball	3,272	1,936	5,130	79	-	79
Bill Gattton Foundation Scholarship	4,192	54,864	59,055	1	-	1
Golf - Boy's	4,424	4,182	6,245	2,361	-	2,361
Golf - Girl's	5,065	2,453	4,769	2,749	-	2,749
Greenhouse	3,911	6,159	5,464	4,606	-	4,606
Guidance Dept.	873	1,315	2,170	18	-	18
High School Fees	1,366	5,045	4,248	2,162	-	2,162
George Taylor Classic	9,468	13,189	7,868	14,789	-	14,789
Industrial Arts	1,803	49	309	1,543	-	1,543
JROTC	1,729	3,792	5,331	190	-	190
Library	3,716	1,633	1,383	3,966	-	3,966
Marketing	285	-	100	185	-	185
Math Club	456	1,359	1,281	534	-	534
Math Dept.	6	607	600	13	-	13
Milk Machine Monies	1,254	-	117	1,137	-	1,137
MNHS Newspaper	2,091	420	2,420	91	-	91
Muhlenberg County High School	-	4,547	2,653	1,894	-	1,894
Muhlenberg North Financial Center	25,492	40,088	44,955	20,625	(15,710)	4,915
Multicultural Club	126	820	943	3	-	3
National Honor Society	976	553	1,336	193	-	193
S.A.D. Club	-	445	445	-	-	-
Scholarship Fund	-	4,500	4,500	-	-	-
Science Department	471	233	392	312	-	312

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLENBERG NORTH HIGH SCHOOL
ACTIVITY FUND

Year Ended June 30, 2009

	Cash Balance 6/30/08	Receipts	Dis- bursements	Cash Balance 6/30/09	Accounts Receivable (Payable)	Due to Student Groups 6/30/09
Soccer - Boys'	\$ 2,410	\$ 665	\$ 3,029	\$ 46	-	\$ 46
Soccer - Girls'	2,010	1,106	2,967	148	-	148
Social Studies	500	-	-	500	-	500
Softball	3,589	3,480	5,540	1,529	-	1,529
Spirit Club	4,478	4,384	8,504	358	-	358
Student Council	-	475	452	23	-	23
Student Snacks	1,910	5,317	5,807	1,420	-	1,420
Technology Club	210	866	798	278	-	278
Tennis	2,301	-	340	1,961	-	1,961
Track Team	2,135	672	2,784	23	-	23
Swim Team	1,216	-	293	923	-	923
Volleyball	1,155	-	1,154	1	-	1
Writing Account	-	1,591	584	1,007	-	1,007
Special Ed. - Stringer	104	-	10	94	-	94
	154,715	447,936	479,151	123,501	(15,710)	107,791
Less: Interfund Transfers	-	(13,003)	(13,003)	-	-	-
Totals:	\$ 154,715	\$ 434,932	\$ 466,148	\$ 123,501	\$ (15,710)	\$ 107,791

Cash Balances at June 30, 2008 and 2009 consist of:

	2008	2009
Cash in bank	\$ 129,223	\$ 102,877
Cash in bank - Muhlenberg North Financial Center	7,492	1,968
Certificate of Deposit	18,000	18,656
	\$ 154,715	\$ 123,501

MUHLBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLBERG SOUTH HIGH SCHOOL
ACTIVITY FUND

Year Ended June 30, 2009

	Cash Balance 6/30/08	Receipts	Dis- bursements	Cash Balance 6/30/09	Accounts Receivable (Payable)	Fund Balance 6/30/09
	\$	\$	\$	\$	\$	\$
Academic Team	525	300	405	420	-	420
Agriculture	800	111	362	549	-	549
AP Test Fees	214	2,129	2,045	298	-	298
Art Honor Society	302	1,483	1,580	205	-	205
Athletic Fund	1,419	41,978	40,684	2,713	-	2,713
Athletic T-Shirt Fundraiser	768	1,225	1,463	531	-	531
Athletic Uniforms	269	75	344	-	-	-
Book Rental	-	2,763	2,763	-	-	-
Chess Club	2,091	165	165	2,091	-	2,091
Chorus	-	130	13	117	-	117
Class of 01-02	476	-	476	-	-	-
Class of 03-04	940	-	940	-	-	-
Class of 04-05	80	-	80	-	-	-
Class of 05-06	204	-	204	-	-	-
Class of 07-08	15	-	15	-	-	-
Class of 08-09	211	2,500	2,069	642	-	642
Class of 09-10	-	15,893	15,581	313	-	313
Class of 10-11	2,416	-	-	2,416	-	2,416
Class Trips	239	-	140	99	-	99
Concessions	8,014	26,365	33,964	415	-	415
Dance Team	75	3,804	3,879	-	-	-
DECA Club	14	3,313	3,327	-	-	-
DECA Store	66	4,119	3,725	460	-	460
DECA / FCCLA	306	-	-	306	-	306
District Tournament	2,000	2,814	4,814	-	-	-
Drama Club	54	450	199	305	-	305
Enviro Club / Scharf	30	-	-	30	-	30
Extra Salary - Board	-	7,974	7,974	-	-	-
Family / Consumer	168	207	122	253	-	253
FBLA Club	43	2,660	2,676	27	-	27
FCA	14	776	776	14	-	14
FHA/FCCLA	79	98	98	79	-	79
FFA	1,234	21,221	21,052	1,402	-	1,402
FMD	193	1,240	1,335	98	-	98
Foreign Language	889	-	882	7	-	7

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLENBERG SOUTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2009

	Cash Balance 6/30/08	Receipts	Dis- bursements	Cash Balance 6/30/09	Accounts Receivable (Payable)	Fund Balance 6/30/09
	\$	\$	\$	\$	\$	\$
Freshman Academy	1,019	5,489	6,475	33	-	33
Future Educators	1,163	110	129	1,144	-	1,144
Gatorade / Athletics	1,099	403	1,502	-	-	-
General Fund	39,836	32,749	45,944	26,641	-	26,641
Get Started	2,596	-	305	2,291	-	2,291
Girls Soccer	730	1,255	1,733	252	-	252
Girls Tennis	1,222	1,173	1,643	753	-	753
Greenhouse	14,819	5,892	15,248	5,463	-	5,463
Guidance	141	372	421	92	-	92
Guitar Club	229	-	-	229	-	229
Health Careers	75	1,232	1,307	-	-	-
Journalism	-	1,630	199	1,432	-	1,432
JROTC	240	3,642	3,811	71	-	71
Junior Beta Club	556	-	556	-	-	-
Kick for Cash / Money Ball	357	12,350	12,707	-	-	-
Library	376	305	161	520	-	520
Marching Band	-	2,605	2,605	-	-	-
Math/Physics Club	155	272	172	255	-	255
Media	803	-	573	230	-	230
Milk Machine	504	997	1,047	454	-	454
Memorial Fund	705	-	100	605	-	605
Misc. Baseball	1,240	16,149	16,987	402	-	402
Misc. Boy's Basketball	568	750	1,317	-	-	-
Misc. Boy's Golf	824	2,942	3,767	-	-	-
Misc. Cross Country	2,268	14,950	16,924	294	-	294
Misc. Football	2,704	4,175	6,879	-	-	-
Misc. Girl's Basketball	-	3,087	2,063	1,025	-	1,025
Misc. Girl's Golf	324	1,040	1,297	67	-	67
Misc. Track	-	600	492	108	-	108
Misc. Softball	-	6,664	5,219	1,445	-	1,445
Misc. Swim Team	733	600	404	929	-	929
Misc. Soccer	328	977	1,225	80	-	80
Misc. Tourney Account	140	-	140	-	-	-
Boy's Tennis	274	1,173	564	883	-	883
MSSH Financial Center	43,779	26,588	31,247	39,120	(29,050)	10,070

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLENBERG SOUTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2009

	Cash Balance 6/30/08	Receipts	Dis- bursements	Cash Balance 6/30/09	Accounts Receivable (Payable)	Fund Balance 6/30/09
MSHS PTO	\$ 363	\$ -	121	\$ 242	-	242
Multi Cultural	161	71	177	55	-	55
National Honor Society	603	3,656	3,074	1,185	-	1,185
Newspaper	107	1,795	1,572	330	-	330
Phys/Astronomy Club	130	-	-	130	-	130
Project Prom	-	2,150	2,150	-	-	-
Regional Tourney	1,174	-	1,174	-	-	-
Rewards	718	-	-	718	-	718
RPG Club	175	-	-	175	-	175
SADD Club	92	1,175	1,260	8	-	8
Sarah's Scholarship	-	2,500	-	2,500	-	2,500
S.C.A Club	140	-	-	140	-	140
Semi-State Baseball	-	4,306	4,306	-	-	-
Senior Beta Club	9	-	-	9	-	9
Spirit Club	369	500	756	113	-	113
STLP	643	145	-	788	-	788
Student Council	256	-	-	256	-	256
Sunshine Designs-DECA/FBLA	60	-	-	60	-	60
Sunshine Fund	26	-	-	26	-	26
Teacher's Lounge	342	2,214	2,556	-	-	-
TSA	644	-	644	-	-	-
Varsity Cheerleader	929	8,633	9,563	-	-	-
Vending Drinks	586	323	909	-	-	-
Volleyball	-	1,520	1,202	318	-	318
Y - Club	492	-	-	492	-	492
Yearbook	1,847	9,222	10,876	193	-	193
	<u>153,816</u>	<u>332,172</u>	<u>379,655</u>	<u>106,337</u>	<u>(29,049)</u>	<u>77,288</u>
	-	<u>(33,052)</u>	<u>(33,052)</u>	-	-	-
Less: Interfund Transfers	<u>\$ 153,816</u>	<u>\$ 299,120</u>	<u>\$ 346,603</u>	<u>\$ 106,337</u>	<u>\$ (29,049)</u>	<u>\$ 77,288</u>

MUHLenberg COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLenberg SOUTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2009

	Cash Balance 6/30/08	Receipts	Dis- bursements	Cash Balance 6/30/09	Accounts Receivable (Payable)	Fund Balance 6/30/09
Cash Balances at June 30, 2008 and 2009 consist of:		2008	2009			
Cash in bank - checking		\$ 97,954	\$ 67,216			
Cash in bank - Muhlenberg South Financial Center		18,780	14,121			
Certificate of Deposit - MSFC		25,000	25,000			
Certificate of Deposit		12,082	-			
		<u>\$ 153,816</u>	<u>\$ 106,337</u>			

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
J.P. MORGAN
Year ended June 30, 2009

BEGINNING FUND BALANCE, July 1, 2008	<u>\$ 566,158</u>
RECEIPTS	
Dividends received	11,121
Gain on sale of investment	-
Decrease in fair value of investments	<u>(130,975)</u>
	(119,854)
DISBURSEMENTS	
Instruction	3,845
Commission	<u>-</u>
	<u>3,845</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>(123,699)</u>
OTHER FINANCING SOURCES (USES)	
Operating transfer out	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(123,699)</u>
ENDING FUND BALANCE, June 30, 2009	<u><u>\$ 442,459</u></u>

MUHLENBERG COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Passed through the Commonwealth of Kentucky, Department of Education:			
Title I, Part A	84.010 A	3100002 07	\$ 408,451
Title I, Part A	84.010 A	3100002 08	1,303,285
			<u>1,711,736</u>
<i>*Special Education - Cluster</i>			
Special Education - Grants to States	84.027 A	3810002 06	41,572
Special Education - Grants to States	84.027 A	3810002 07	864,804
Special Education - Grants to States	84.027 A	3810002 08	-
			<u>906,376</u>
Special Education - Preschool Grants	84.173 A	380002 07	9,936
Special Education - Preschool Grants	84.173 A	380002 08	62,997
			<u>72,933</u>
Special Education - Grants to States, Recovery Act	84.391 A	4249	<u>177,922</u>
Total Special Education Cluster			<u>1,157,231</u>
Title V, Innovative Programs	84.298	3500002 07	-
Career and Technical Education - Basic Grants	84.048	4610810 07	2,842
Career and Technical Education - Basic Grants	84.048	4620832 07	-
Career and Technical Education - Basic Grants	84.048	4620832 07	1,084
Career and Technical Education - Basic Grants	84.048	4620932 08	49,936
			<u>53,862</u>
Rural Education	84.358 B	3140002 07	103,409
Rural Education	84.358 B	3140002 08	11,001
			<u>114,410</u>
Improving Teacher Quality, State Grants	84.367 A	3230002 07	-
Improving Teacher Quality, State Grants	84.367 A	3230002 08	364,113
Grants for State Assessments and Related Activities	84.369	3900001 07	2,826
Safe and Drug Free Schools and Communities	84.186	3410002 06	6,638
Safe and Drug Free Schools and Communities	84.186	3410002 07	27,736
Safe and Drug Free Schools and Communities	84.186 A	3410002 08	13,589
			<u>47,963</u>
Education Technology State Grants	84.318	3210002 06	-
Education Technology State Grants	84.318	3210002 07	54,336
Education Technology State Grants	84.318	3210002 07	8,000
Education Technology State Grants	84.318	3210002 08	-
			<u>62,336</u>
Passed through the Commonwealth of Kentucky, Cabinet for Workforce Development:			
Rehabilitation Services, Vocational Rehabilitation	84.126	3769	<u>33,450</u>
Total U.S. Department of Education			<u>3,545,101</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services			
<u>Passed through the Commonwealth of Kentucky,</u>			
Cabinet for Workforce Development:			
Rural Health Care Services Outreach	93.912 C	6708	\$ 13,080
Rural Health Care Services Outreach	93.912 C	6709	28,682
Department of Education:			
Comprehensive Agreements to Support Comprehensive School Health Programs to Prevent HIV	93.938	2000001 08	150
Total U.S. Department of Health and Human Services			41,912
<u>U.S. Department of Labor</u>			
Passed through the Western Kentucky Workforce Investment Board:			
Workforce Investment Act Youth Activities	17.259	5888	563
WIA Youth Activities, Recovery Act	17.259	A09424	40,000
Total U.S. Department of Labor			40,563
<u>U.S. Department of Agriculture</u>			
Passed through the Commonwealth of Kentucky, Department of Agriculture:			
Commodity Supplemental Food Program	10.565	N/A	215,278
Passed through the Commonwealth of Kentucky, Department of Education:			
<i>*Child Nutrition - Cluster</i>			
School Breakfast Program	10.553	7760005-08	84,245
School Breakfast Program	10.553	7760005-09	292,781
National School Lunch Program	10.555	7750002-08	232,496
National School Lunch Program	10.555	7750002-09	818,726
Summer Food Service Program for Children	10.559	7690024-08	-
Summer Food Service Program for Children	10.559	7690024-09	2,040
Summer Food Service Program for Children	10.559	7740023-08	82
Total Child Nutrition Cluster			1,430,370
Total U.S. Department of Agriculture			1,645,648
U.S. Department of Defense			
<u>Direct Program:</u>			
Reserve Officer's Training Corps	12.000	5048	-
Reserve Officer's Training Corps	12.000	5049	202,232
Total U.S. Department of Defense			202,232
Total Federal Financial Assistance			\$ 5,475,456

*= Major Federal Financial Assistance Program

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Muhlenberg County School District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B – OTHER FEDERAL AWARDS

The District did not receive any noncash insurance or have any loan or loan guarantees outstanding at the end of the year. Noncash assistance is reported in the schedule at the fair value of commodities disbursed.

ALEXANDER & COMPANY, PSC

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Muhlenberg County School District (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements* and *Appendix III of the Independent Auditor's Contract - Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over the financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 09-1, 09-2, 09-3 and 09-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a material weakness. However, of the significant deficiencies described above, we consider item 09-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion of compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of noncompliance with specific statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements* except as indicated below.

According to KRS 160.520, and more specifically OAG 808, penalties and interest on taxes due to a school district must be paid to the district. During the year ended June 30, 2009, the county clerk remitted delinquent taxes net of the sheriff's, county attorney's and county clerk's collection fee which was collected on the penalties and interest.

Management's Response: The finance officer will contact the county clerk for compliance.

According to KRS 424.220, local boards of education are required to publish an annual financial statement that includes the total amount of funds collected and received during the year from each individual source and the amount dispersed during the fiscal year to each individual payee and the purpose for which the funds were expended. The fiscal year 2009 annual financial statement published in August 2009 did not include the purpose of the individual expenditures or show the payment to teachers separately.

Management's Response: Printing this detail would require an enormous time and expense to the District.

According to KRS 45A.365(1) the invitation for bids shall state that the award shall be made by sealed bid. During the year ended June 30, 2009 three bid advertisements did not contain that statement.

Management's Response: We will monitor future bid advertisements to include the wording "by sealed bid."

According to KRS 45A.365(3) the invitation for bids shall include the time and place where bid specifications may be obtained. During the year ended June 30, 2009 five bids did not contain that information.

Management's Response: The location, contact name and phone number are listed. We will monitor future bid advertisements to include the time.

According to KRS 45A.365(5) a contract shall be awarded with reasonable promptness by written notice to the responsive and responsible bidder whose bid is either the lowest bid price or the lowest elevated bid price. During the year ended June 30, 2009 one bid was awarded without written notification.

Management's response: We will monitor future bid awards to include written notification.

According to the Constitution of Kentucky, Section 179, a District shall not become a shareholder in a corporation. As of June 30, 2008, the District is a shareholder in two corporations. This stock was a donation.

Management's Response: This is donated stock restricted for use of funds and dividend income for direct student needs. We will research the legalities of ownership.

According to KRS 160.570(1) the bank appointed as depository shall agree with the board as to the rate of interest to be paid on average daily or monthly balances. As of June 30, 2009, there was no agreement on the amounts to be paid.

Management's Response: We are paid a competitive rate of interest according to market conditions. The board is in agreement with this rate.

We noted certain matters that we reported to management of the District, in a separate letter dated November 12, 2009.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Muhlenberg County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Alexander & Company, PSC

Owensboro, Kentucky
November 12, 2009

ALEXANDER & COMPANY, PSC

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

Compliance

We have audited the compliance of Muhlenberg County School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Muhlenberg County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements and Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Muhlenberg County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Alexander & Company, PSC

Owensboro, Kentucky
November 12, 2009

MUHLENBERG COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2009

SUMMARY OF AUDITORS' RESULTS

1. The opinion expressed in the independent accountants' report was:
2. ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
3. The independent accountant's report on internal control over financial reporting described:
 Significant deficiencies noted considered material weakness(es)? ☒ Yes ☐ No
 Significant deficiencies noted that are not considered to be material weakness(es)? ☒ Yes ☐ No
4. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No
5. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiencies noted considered material weakness(es)? ☐ Yes ☒ No
 Significant deficiencies noted that are not considered to be material weakness(es)? ☐ Yes ☒ No
6. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
7. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No
8. The District's major programs were:

Cluster/Program	CFDA Number
Special Education Cluster	
Special Education – Grants to States (IDEA, Part B)	84.027
Special Education – Preschool Grants (IDEA Preschool)	84.173
Special Education – Grants to States (IDEA, Part B), Recovery Act	84.391
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

9. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
10. The District qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

MUHLENBERG COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (continued)
June 30, 2009

FINDINGS - FINANCIAL STATEMENT AUDIT

09-1 Significant Deficiency:

Adjusting Journal Entries

Condition: During the course of our engagement, we proposed several audit adjustments in an amount that was material to the financial statements.

Criteria: The District should have adequate controls in place over the processing and recording of transactions to ensure that the financial statements are not materially misstated.

Cause: Journal entries associated with the prior year-end audit and comparison of prior year amounts were not reviewed in relation to the current year.

Effect: The adjusting journal entries affected the financial statements in a material amount.

Recommendation: We recommend that the District review the prior year-end auditor journal entries and prior year comparative amounts during current year close to identify accounts that may need adjustment prior to year-end.

Response: District does review prior year-end auditor journal entries and adjust accordingly. Auditor is referring to items such as prepaid insurance.

09-2 Significant Deficiency and Material Weakness:

Controls over capital assets

Condition: Inadequate design of internal controls over the reporting of capital assets.

Criteria: The District should have adequate controls in place over the processing and recording of capital asset transactions to ensure that the financial statements are not materially misstated.

Cause: There is a lack of communication of fixed asset additions between food service operations, the finance officer and the capital asset clerk.

Effect: Capital assets in a material amount were omitted from the capital asset list.

Recommendation: We recommend that the District review its internal controls over the recording of capital assets in order to correct the areas that could result in a material misstatement.

Response: District continues to monitor its internal controls over capital assets. However, district does feel significant improvements have been made in its capital asset procedures and only minor problems continue.

MUHLENBERG COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (continued)
June 30, 2009

FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

09-3 Significant Deficiency

Controls over financial reporting

Condition: Inadequate design of internal controls over financial reporting and disclosure.

Criteria: The District should have adequate controls in place over financial reporting and disclosure to ensure that the financial statements are not materially misstated.

Cause: Lack of expertise with footnote disclosure.

Effect: There is the likelihood of a material misstatement in the presentation and disclosure of the financial statements, including the related footnotes, occurring and not being detected by the finance officer.

Recommendation: We recommend that the finance officer obtain a current disclosure checklist from the AICPA and review and answer the checklist to ensure propriety and completeness of the footnotes.

Response: School districts have not had to do footnote disclosures in the past. This is a new requirement.

09-4 Significant Deficiency

Controls over Food Service cash disbursements

Condition: Inadequate design of internal controls over Food Service cash disbursements. The Account Clerk enters invoices, prints checks, runs the check signing machine and mails the checks.

Criteria: A good system of internal control provides for the proper segregation of accounting functions.

Cause: Poor design of internal controls.

Effect: There is the likelihood of misappropriations by error or fraud could occur and not be detected by the District's internal controls.

Recommendation: We recommend that someone other than the Account Clerk be responsible for the check signing and the mailing of the checks.

Response: We will review. Adequate staff numbers make it difficult to segregate all duties. Check signing machine is key operated in the finance officer's office.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

1. The audit did not disclose any audit finding that the auditor is required to report under Section 510(a) of Circular A-133.

**MUHLENBERG COUNTY SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
June 30, 2009**

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

1. The audit did not disclose any audit finding that the auditor is required to report under Section 510(a) of Circular A-133.

ALEXANDER & COMPANY, PSC
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November 12, 2009

Muhlenberg County Board of Education
Powderly, Kentucky

In planning and performing our audit of the financial statements of the Muhlenberg County School District for the year ended June 30, 2009, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the District's internal control in our report dated November 12, 2009. This letter does not affect our report dated November 12, 2009 on the financial statements of the Muhlenberg County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,



Alexander & Company, PSC
Owensboro, Kentucky

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

CURRENT YEAR COMMENTS

- A. Statement of condition: Board member and other key employee used the District credit card for personal expenses totaling \$601.40. Employee reimbursement was made 76 days after the charge.

Criteria of condition: District resources should not be used for any personal expenses.

Cause of condition: Convenient use of District's credit card.

Effect of condition: Sets a poor tone for all those in the accounting department.

Recommendation: The District should prohibit use of credit card for personal expenses.

Management's response: This amount was for two NSBA travel related charges that were fully reimbursed.

- B. Statement of condition: Finance officer used the District credit card for central office travel expenses.

Criteria of condition: The board shall reimburse school personnel for school related travel when such travel is a required part of the duties of the employee.

Cause of condition: Board policy not followed.

Effect of condition: Sets a poor tone for all those in the accounting department.

Recommendation: Certified personnel should be reimbursed for travel expenses in accordance with board policy.

Management's response Expenses were a required part of Board business related travel. Board policy will be reviewed to allow for use of credit cards as needed.

- C. Statement of condition: Cell phone charges in the amount of \$767.52 for Title IV were paid with IDEA funds.

Criteria of condition: Expense must be allowable and cannot be a cost of another federally supported program.

Cause of condition: An error was made when coding costs.

Effect of condition: This results in a questioned cost for the IDEA program.

Recommendation: Funds in the amount of \$767.52 should be reimbursed to the IDEA program..

Management's response: The DOSE and secretary have journaled those charges from IDEA to Title IV. Also, charges in July, August, September and October 2009 have been journaled to Title IV. DOSE has requested that all phones except those used in the IDEA program be moved out of the IDEA phone bill. The finance officer has contacted the company and asked them for removal, but that has not yet been completed by the company. DOSE and secretary will continue to monitor the phone bill monthly and make sure only charges for the two phones for IDEA are on the bill. Any additional charges will come from a Fund other than IDEA.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

CURRENT YEAR COMMENTS (continued)

- D. Statement of Condition: The IDEA program did not maintain the required time and effort certifications for employees.

Criteria of Condition: An employee who works solely on a single Federal program must furnish a semi-annual certification that he/she has been engaged solely in activities. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

Cause of Condition: Certifications were not obtained.

Effect of Condition: Non-compliance with a federal program requirement.

Recommendation: Certifications should be obtained on a semi-annual basis.

Management's response: The letters for the 2008-09 school year were not collected due to the family illness of the DOSE and the new secretary not being aware of the process. This has now been corrected as the Fall 2009 verification letters from each person paid from IDEA funds has been gathered. The DOSE will collect those letters again in April 2010.

- E. Statement of Condition: Of 40 disbursements examined in the IDEA program, 6 were noted as not being checked for accuracy and noted on the invoice.

Criteria of Condition: Conformity with OMB Circular A-87, Attachment A, Section C

Cause of Condition: Unknown

Effect of Condition: Payment could be made on invoices that are not mathematically accurate.

Recommendation: Invoices should be recomputed and clearly marked, as such, on the invoice.

Management's response: The DOSE and secretary understand and agree to check addition and verify total amount is correct on any invoices/bills/travel expenses paid from IDEA money. There will be a check beside each item and initial by the amount if found to be correct. If the total amount does not match the secretary's amount, all attempts will be made with the vender to reconcile the final payment.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

CURRENT YEAR COMMENTS (continued)

- F. Statement of condition: School activity funds were not in compliance with the Redbook in the following areas:

	<u>Bremen</u>	<u>CCES</u>	<u>Greenville</u>	<u>Longest</u>	<u>MSES</u>	<u>MNMS</u>	<u>MSMS</u>	<u>MNHS</u>	<u>MSHS</u>
Personal loans are not prohibited									
Equipment purchased with activity funds									
Telephone/utility bills paid with activity funds			X	X	X				X
Form F-SA-7 (PO) not utilized				X (7)		X (2)	X (1)		
No supporting documentation on purchase						X (1)	X (1)		X (1)
Transfer forms not properly authorized						X (3)			
No segregation of duties								X	X

Criteria of condition: Accounting procedures for Kentucky School Activity Funds ("Redbook")

Cause of condition: Unknown

Effect of condition: School is not in compliance with the Redbook.

Recommendation: School personnel should review Redbook procedures in order to maintain compliance.

Management's response: Redbook procedures will be reviewed.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

UNCORRECTED PRECEDING AUDIT COMMENTS

- A. Statement of condition: All capital asset activity for the year has not been recorded in the District's Asset Depreciation Listing and duplication existed in fiscal 2009..

Criteria of condition: Asset Depreciation List should be a complete updated list of all assets owned by the District.

Cause of condition: No monthly reconciliations.

Effect of condition: Complete updated list of assets owned by the District is not available. Audit completion was delayed.

Recommendation: Responsibility for updating the list should be assigned and list should be updated monthly.

Management's response: The District feels that the audit was not delayed by this. However, we will monitor the asset records more closely.

- B. Statement of condition: Credit card charges for meals and travel did not have the proper supporting documentation. Other credit card charges did not have the proper receipts.

Criteria of condition: Supporting documentation for meals and travel should answer the who, what, where, when and why questions. Many meal payments did not list attendees or the purpose. Credit card charges should have documentation of receipt before payment is made and signed by the individual receiving the goods.

Cause of condition: Board did not enforce policy that requires receipts.

Effect of condition: It could not be determined whether all credit card charges were for proper expenses of the District.

Recommendation: The District should follow the Board Policy and pay for travel expenses on a reimbursement basis. Receipts for charges made on the District credit card should be required before any payment is made and a signature evidencing receipt should be obtained.

Management's response: Meals and travel expenses are for board related business expenses. Respective reimbursements are made when needed. District will do a better job when detailing receipts.

- C. Statement of condition: Finance officer continues to use the District credit card for personal expenses. A reimbursement of \$1,075.60 was reimbursed to the district 44 days after the charge.

Criteria of condition: District resources should not be used for any personal expenses.

Cause of condition: Finance officer does not possess a personal credit card.

Effect of condition: Sets a poor tone for all those in the accounting department.

Recommendation: Finance officer should cease making any personal charges with the District's credit card.

Management's response: This was for conference air travel that was reimbursed.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

RESOLUTION OF RECOMMENDATIONS MADE DURING THE PRECEDING AUDIT

- A. Statement of condition: During the testing of your payroll files, we noted that 9 employees did not have a Form I-9 on file.

Criteria of condition: The Immigration Reform and Control Act of 1986 (IRCA) seeks to control illegal immigration by eliminating employment opportunity as an incentive for unauthorized persons to come to the United States, by prohibiting the hiring or continued employment of aliens whom employers know are unauthorized to work in the United States. To comply with the law, all U.S. employers must verify the employment eligibility and identity of all employees hired to work in the United States after November 6, 1986 by completing Employment Eligibility Verification forms (Forms I-9) for all employees, including U.S. citizens.

Cause of condition: Unknown.

Effect of condition: Employers who hire or continue to employ individuals knowing that they are not authorized to be employed in the United States may face civil and criminal penalties.

Recommendation: The District should keep a signed copy of the Form I-9 on file to verify employment eligibility.

Action Taken: All employee files are now reviewed for any missing I-9 forms.

- D. Statement of condition: School activity funds were not in compliance with the Redbook in the following areas:

	<u>Bremen</u>	<u>Central City</u>	<u>Greenville</u>	<u>Longest</u>	<u>MSES</u>	<u>MNMS</u>	<u>MSMS</u>	<u>MNHS</u>	<u>MSHS</u>
Telephone/utility bills paid with activity funds	X		X		X				X
Form F-SA-3 (budget) not used				X					
Form F-SA-7 (PO) not utilized				X (8)		X (1)			
No supporting documentation on purchase						X (1)			
Transfer forms not properly authorized							X (1)		
Form F-SA-10 not utilized							X (1)		
No segregation of duties								X	X

Criteria of condition: Accounting procedures for Kentucky School Activity Funds ("Redbook")

Cause of condition: Unknown

Effect of condition: School is not in compliance with the Redbook.

Recommendation: School personnel should review Redbook procedures in order to maintain compliance.

Action Taken: Redbook procedures are reviewed annually.